

CONTINUANCE OF DIRECT HOUSING LOANS BY VETERANS' ADMINISTRATION

JUNE 13, 1951.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. RANKIN, from the Committee on Veterans' Affairs, submitted the following

REPORT

[To accompany H. R. 3861]

The Committee on Veterans' Affairs, to whom was referred the bill (H. R. 3861), a bill to extend to June 30, 1953, the authority of the Administrator of Veterans' Affairs to make direct home and farmhouse loans under title III of the Servicemen's Readjustment Act of 1944, as amended, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill do pass.

The amendments are as follows:

On page 1, line 6, strike out "July 1" and insert "June 30".

On page 2, line 17, strike out "July 1" and insert "June 30".

On page 2, line 20, strike out "July 1" and insert "June 30".

EXPLANATION OF THE BILL

The Housing Act of 1950 (Public Law 475, 81st Cong.), amended the Servicemen's Readjustment Act to provide that under certain conditions the Administrator of Veterans' Affairs is authorized to make direct housing loans in an amount not to exceed \$10,000 where private financing at interest rates not exceeding the 4-percent rate is not generally available to veterans in the area for the purposes already provided in the act. One hundred and fifty million dollars was authorized for this purpose. This authority will expire on June 30, 1951.

The bill would extend this authority for two additional years until June 30, 1953. The purpose of the amendment reported by the committee is to make the termination date coincide with the end of the fiscal year 1953 rather than the beginning of the new one on July 1, 1953. In addition, this bill provides for the creation of a revolving

fund into which receipts from the resale or repayment of loans would be deposited, which would thus in turn be available for additional loans.

A provision substantially identical to this bill is included in section 14 of the bill, S. 349, a general housing measure which has been approved by the Senate and is now pending before the Banking and Currency Committee of the House.

Hearings were held on this subject and considerable detail was presented by the officials of the Veterans' Administration loan guaranty program. In addition, representatives of the American Legion, Disabled American Veterans, Veterans of Foreign Wars, and AMVETS all spoke in favor of the proposal.

Aside from the comparatively small administrative cost, it is the opinion of the committee that little, if any, additional cost will accrue to the Government by the enactment of this legislation. It should be pointed out that the enactment of this legislation in the Eighty-first Congress thereafter made it possible for many veterans to get 4 percent housing loans from private sources which might otherwise not have been available had this provision never been passed.

The committee wishes to stress the fact that the Veterans' Administration is empowered to make direct loans only as a last resort. In practice, whenever an eligible veteran makes application for a direct loan and is found to be basically qualified, the private lending agencies in that area are advised and opportunity is given them to make the loan if desired. It is only after the private sources have refused that the Veterans' Administration makes the loan. Also, it should be remembered direct loans generally are made only in rural or semi-rural areas. Metropolitan areas, with one or two exceptions, have not been designated by Veterans' Administration as eligible for direct loans.

The interest paid on loans for housing is included in the table below as a matter of information:

Total interest charges on various direct reduction loans

	\$1,000	\$10,000	\$15,000
At 4 percent interest per annum:			
15 years.....	\$331.31	\$3,313.10	\$4,969.65
20 years.....	454.45	4,544.50	6,816.75
25 years.....	583.22	5,832.20	8,748.30
At 4½ percent interest per annum:			
15 years.....	377.02	3,770.20	5,655.30
20 years.....	517.87	5,178.70	7,768.05
25 years.....	667.13	6,671.30	10,006.95
At 5 percent interest per annum:			
15 years.....	423.34	4,233.40	6,350.10
20 years.....	583.86	5,838.60	8,757.90
25 years.....	752.59	7,525.90	11,288.85

The report of the Veterans' Administration follows:

VETERANS' ADMINISTRATION,
Washington 25, D. C., May 3, 1951.

Hon. JOHN E. RANKIN,

Chairman, Committee on Veterans' Affairs,

House of Representatives, Washington 25, D. C.

DEAR MR. RANKIN: This will refer to your request for a report on H. R. 3861, Eighty-second Congress, a bill to extend to June 30, 1953, the authority of the Administrator of Veterans' Affairs to make direct home and farmhouse loans

under title III of the Servicemen's Readjustment Act of 1944, as amended, and for other purposes.

The purpose of the bill is to extend from June 30, 1951, to July 1, 1953, the authority granted the Administrator of Veterans' Affairs under the Servicemen's Readjustment Act of 1944, as amended, by the Housing Act of 1950, to make direct home and farmhouse loans to eligible veterans in those areas where private capital is not available. The bill does not propose any authorization for additional funds except that the present \$150,000,000 direct loan fund would be reconstituted as a revolving fund. A corresponding provision is made in the bill to extend from June 30, 1951, to July 1, 1953, the period during which the Secretary of the Treasury shall make necessary sums available to the Administrator and the date for return to the Treasury of unexpended funds in the authorized special deposit account, in section 513 (c), would be extended from June 30, 1952, to July 1, 1954.

H. R. 3861 appears to be identical in substance with the amendment to S.349 Eighty-second Congress (the proposed Defense Housing and Community Facilities and Services Act of 1951), introduced by Senator Sparkman, of Alabama, and adopted, in a modified form by the Senate on April 9, 1951. It differs from existing law in that the Administrator of Veterans' Affairs with respect to the sale of loans to private lending institutions would be authorized to sell with the same guaranty which is presently afforded to section 501 (b) loans under title III of the Servicemen's Readjustment Act of 1944, as amended, namely, in an amount not to exceed 60 percent of the loan but not to exceed \$7,500 in lieu of the existing limitations of section 512 (d) under which loans sold by the Administrator to private lending institutions are subject to be guaranteed on the basis of an amount not exceeding 50 percent of the loan but not to exceed \$4,000, the maximum provided in section 500 (a). This proposal is apparently based on the anticipation that the higher guaranty percentage and dollar maximum of section 501 (b) would render the loans more readily salable and avert some of the competitive disadvantage which the lower guaranty maxima might face in the market.

By way of technical comment, it is observed that whereas the bill in its title purports to extend the direct lending authority of the Administrator to June 30, 1953, that is, the last day of the fiscal year, the text, proper, would effect the extension through July 1, 1953, in section 512 (b) and 513 (a) and through July 1, 1954, in section 513 (c), namely, through the first day of a fiscal year in each case. It would appear that such selection of the first day of the fiscal year, in lieu of the last day of the preceding fiscal year may have been inadvertent.

Reference may also be made to a technical question which arises from the terms of the present law and which would be carried forward by the proposed amendment. While section 512 (a) provides, in pertinent part, that "the Administrator is authorized and directed to make, or enter into a commitment to make, the veteran a loan * * *", clause "(D)" of the same subsection prescribes that "the authority to make loans under this section shall expire June 30, 1951." This poses a question as to the disbursement of loans for which commitments have been made prior to the expiration date of the authority but in which the proceeds have not been paid out by such date. Such a situation would occur in the case of a construction loan where the lag between approval and final payout of the loan proceeds extends for a number of months. This question recurs in connection with the pertinent provisions of section 513 (a). These questions would not be obviated by the proposed amendment but would continue to exist with respect to the extended dates provided in H. R. 3861, Eighty-second Congress.

Attention is invited to that portion of the President's budget message to the Congress, transmitting the budget for fiscal year 1952, which relates to housing and community development and to the subject of direct veterans loans (p. M48), wherein the President stated:

"Under the Housing Act of 1950, the Administrator of Veterans' Affairs was given temporary authority to make a maximum of \$150,000,000 in direct housing loans to veterans in areas where, even with the support of the secondary market, adequate financing is not obtainable. Experience to date indicates only a limited need for such loans, which private lenders should be able to provide. Accordingly, I do not recommend the extension of this program beyond the current fiscal year."

The records of the Veterans' Administration indicate that for all the designated direct loan areas in the United States and Territories, tentative approval had been given to 9,874 direct loan applications of the 14,189 received through April 10, 1951. The funds reserved for these loans amounted to nearly \$63,000,000, slightly more than two-fifths of the total of \$150,000,000 authorized by Congress for the program. Following the enactment of the Housing Act of 1950, the

Veterans' Administration designated as eligible for direct loans all or part of more than 2,600 counties in which it is estimated upward of 4,000,000 World War II veterans reside. The entire area of Alaska and Puerto Rico was likewise designated as eligible for direct loans.

The reasons behind the lower than anticipated utilization of direct loan funds, under the existing provision, are not fully determinable but there are certain factors which appear to have bearing on the matter. For example, there is the possible deterrent effect of the credit controls of July 19 and October 12, 1950, which entail exaction of higher minimum down payments on housing than otherwise might have been required of veterans. Another factor concerns the relatively low rate of construction in many of the semirural and rural areas designated as eligible to participate in the direct loan program. However, the existence of this program appears to have been most influential in the extent to which it is believed to have inspired private lenders to make VA-guaranteed loans, thereby lessening the need for applications for direct loans by veterans.

On the basis of current trends, it appears that a substantial portion of the \$150,000,000 fund authorization contained in the existing law will remain uncommitted on June 30, 1951. If the most recent experience in application rates continues for the balance of this fiscal year, it is estimated that approximately \$40,000,000 will remain unutilized on June 30, 1951. It should be noted, however, that in the last several months there has been a steady upward trend in the rate of direct loan applications, and if that acceleration continues, the amount carried over into fiscal year 1952 may well be less than \$40,000,000. In any case it appears quite probable, were the proposed bill to be enacted, that the amount of direct loans approved by the Veterans' Administration would reach \$150,000,000 very early in fiscal 1952 perhaps during the first quarter. Thereafter the ability of the Veterans' Administration to make additional loans would of course be limited to the amounts made available through repayments, prepayments, and sales by the Veterans' Administration of direct loans to private lenders.

Since amortization payments on long-term mortgage loans reduce the loan principal very slowly, particularly in the early years of the loan, the ability to make additional direct loans in any sizable quantity would hinge largely upon the Veterans' Administration ability to sell its loans in the private mortgage market. For example, it is estimated roughly that a portfolio of \$150,000,000 carrying an average maturity of 20 years would return only about \$5,000,000 in principal amortization payments during the first year of life of the portfolio. In addition prepayments and payments in full would provide additional money, but the total principal recapture during the first year would probably not exceed \$10,000,000, an amount which would permit the origination of only 1,400 direct loans for the country as a whole, assuming an average loan amount of approximately \$7,000.

Thus the ability of the fund to revolve to any substantial degree would depend upon the success of Veterans' Administration attempts to sell loans out of portfolio. In view of the increased reluctance which lenders are now exhibiting toward guaranteed loans carrying a maximum interest rate of 4 percent, and in view of the fact that the direct loan portfolios in Veterans' Administration regional offices are scattered in communities which are generally remote from urban centers which would increase the servicing cost of such loans to a private holder, considerable difficulties might be encountered in effecting the sale of direct loans, thereby curtailing materially the ability of the fund to revolve effectively.

The extension of the direct loan program beyond its scheduled expiry date is of course a question for determination as a matter of national policy. As the committee is aware, the authority granted the Administrator of Veterans' Affairs to make 4 percent loans to qualified veterans unable to obtain such loans from private lenders, was provided by the Housing Act of 1950 as a temporary and stand-by measure. The budget message of the President hereinbefore quoted in pertinent part similarly stressed the temporary character of the legislation and the limited demand for such loans which has been experienced, and stated that he did not recommend extension of the program. The committee will therefore wish to consider whether there is an urgent need or desirability for such an extension.

Advice has been received from the Bureau of the Budget that there would be no objection to the presentation of this report to the committee and that enactment of H. R. 3861 would not be in accord with the program of the President.

Sincerely yours,

O. W. CLARK,
Deputy Administrator
(For and in the absence of the Administrator).

RAMSEYER RULE

In accordance with clause 2a of rule XIII of the Rules of the House of Representatives, the changes made in existing law by the bill are shown as follows (existing law proposed to be omitted is in black brackets; new matter is in italics; existing law in which no changes are proposed is shown in roman):

H. R. 3861 AS INTRODUCED

(Sec. 512, Public Law 346, 78th Cong. as amended)

SEC. 512 (*38 U. S. C. 694d*). (a) Upon application by a veteran eligible for the benefits of this title who has not previously availed himself of his guaranty entitlement, the Administrator, is authorized and directed to make, or enter into a commitment to make, the veteran a loan to finance the purchase or construction of a dwelling to be owned and occupied by him as a home, or to finance the construction or improvement of a farmhouse, if (1) the Administrator has found, after the effective date of this section, that in the area in which the dwelling or farmhouse is located or is to be constructed private capital is not available for the financing of the purchase or construction of dwellings, or the construction or improvement of farmhouses, as the case may be, by veterans under this title, and (2) the veteran shows to the satisfaction of the Administrator—

(A) that he is a satisfactory credit risk,

(B) that the monthly payments to be required under the proposed loan bear a proper relation to the veteran's present and anticipated income and expenses,

(C) that he is unable to obtain from private lending sources in such area at an interest rate not in excess of 4 per centum per annum a loan for such purpose for which he is qualified under section 501 or section 502 of this title, and

(D) that he is unable to obtain a loan for such purpose from the Secretary of Agriculture under the Bankhead-Jones Farm Tenant Act, as amended, or the Housing Act of 1949.

(b) Loans made under this section shall bear interest at the rate of 4 per centum per annum and shall be subject to such requirements or limitations prescribed for loans guaranteed under this title as may be applicable: *Provided*, That—

(A) the original principal amount of any such loan shall not exceed \$10,000;

(B) the guaranty entitlement of the veteran shall be charged with the same amount that would be deducted if the loan had been guaranteed to the maxima permitted under section 500 (a) of this title;

[(C) the amount of loans made under this section shall not exceed \$150,000,000, and]

(D) the authority to make loans under this section shall expire [June 30, 1951] *July 1, 1953*.

(c) In connection with any loan under this section, the Administrator is authorized to make advances in cash to pay the taxes and assessments on the real estate, to provide for the purpose of making repairs, alterations, and improvements, and to meet the incidental expenses of the transaction, and shall credit to the principal of the loan an amount equal to that which would have been payable under section 500 (c) of this title had the loan been made by a private institution.

(d) The Administrator is authorized to sell, and shall offer for sale, to any private lending institution evidencing ability to service loans, any loan made under this section at a price not less than par; that is, the unpaid balance plus accrued interest, and may guarantee any loan thus sold subject to the same conditions, terms, and limitations which would be applicable were the purchaser entitled to an automatic guaranty under section [500 (a)] 501 (b) of this title.

(e) This section shall take effect ninety days after the date of enactment of the Housing Act of 1950.

SEC. 513. (*38 U. S. C. 694m*). (a) For the purposes of section 512 of this title, the Secretary of the Treasury is hereby authorized and directed to make available to the Administrator such sums, not in excess of \$150,000,000 (*plus the amount of any funds which may have been deposited to the credit of miscellaneous receipts under subsections (a) and hereof*), as the Administrator shall request from time to time except that no sums may be made available after [June 30, 1951] *July 1, 1953*. After the last day on which the Administrator may make loans under that

section, he shall cause to be deposited with the Treasurer of the United States, to the credit of miscellaneous receipts, that part of all sums in the special deposit account referred to in subsection (c) of this section, and all moneys received thereafter, representing unexpanded advances or the repayment or recovery of the principal of loans made pursuant to section 512 of this title. Interest collected by the Administrator on loans made under section 512 in excess of the amount payable by him to the Treasurer of the United States under subsection (b) of this section, together with any miscellaneous income or credits, shall constitute a reserve for payment of losses, if any, and expenses incurred in the liquidation of said obligations. The Administrator shall have power to invest such reserves, or any unexpended part thereof, from time to time in obligations of the Government of the United States.

(b) On advances by the Secretary of the Treasury under subsection (a) of this section, less those amounts deposited in miscellaneous receipts under subsections (a) and (c) hereof the Administrator shall pay semiannually to the Treasurer of the United States interest at the rate or rates determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the advance.

(c) In order to make available the sums payable under subsection (a) of this section and to effectuate the purposes and functions authorized in section 512 of this title, the Secretary of the Treasury is hereby authorized to use, as a public-debt transaction, the proceeds of the sale of any securities issued under the Second Liberty Bond Act as now in force or as hereafter amended, and the purposes for which securities may be issued under the Second Liberty Bond Act as now in force or as hereafter amended, are hereby extended to include such purposes. Such sums, together with all receipts hereunder, shall be deposited with the Treasurer of the United States, in a special deposit account, and shall be available, respectively, for disbursement for the purposes of section 512 of this title. Except as otherwise provided in subsection (a) of this section, the Administrator shall from time to time cause to be deposited into the Treasury of the United States, to the credit of miscellaneous receipts, such of the funds in said account as in his judgment are not needed for the purposes for which they were provided, including the proceeds of the sale of any loans, and not later than [June 30, 1952] July 1, 1954, he shall cause to be so deposited all sums in said account and all moneys received thereafter in repayment of outstanding obligations, or otherwise, except so much thereof as he may determine to be necessary for purposes of liquidation. Without regard to any other provisions of this title, said Administrator shall have authority to take or cause to be taken such action as in his judgment may be necessary or appropriate for or in connection with the custody, management, protection, and realization or sale of such investments, to determine his necessary expenses and expenditures, and the manner in which the same shall be incurred, allowed, and paid, to make such rules, regulations, and orders as he may deem necessary or appropriate for the carrying out of the functions hereby or hereunder authorized and, except as otherwise expressly provided in this title, to employ, utilize, compensate, and delegate any of his functions hereunder to such persons and such corporate or other agencies, including agencies of the United States, as he may designate.

H. R. 3861 AS REPORTED

(Sec. 512, Public Law 346, 78th Cong., as amended)

SEC. 512 (38 U. S. C. 694l). (a) Upon application by a veteran eligible for the benefits of this title who has not previously availed himself of his guaranty entitlement, the Administrator is authorized and directed to make, or enter into a commitment to make, the veteran a loan to finance the purchase or construction of a dwelling to be owned and occupied by him as a home, or to finance the construction or improvement of a farmhouse, if (1) the Administrator has found, after the effective date of this section, that in the area in which the dwelling or farmhouse is located or is to be constructed private capital is not available for the financing of the purchase or construction of dwellings, or the construction or improvement of farmhouses, as the case may be, by veterans under this title, and (2) the veteran shows to the satisfaction of the Administrator—

(A) that he is a satisfactory credit risk,

(B) that the monthly payments to be required under the proposed loan bear a proper relation to the veteran's present and anticipated income and expenses,

(C) that he is unable to obtain from private lending sources in such area at an interest rate not in excess of 4 per centum per annum a loan for such purpose for which he is qualified under section 501 or section 502 of this title, and

(D) that he is unable to obtain a loan for such purpose from the Secretary of Agriculture under the Bankhead-Jones Farm Tenant Act, as amended, or the Housing Act of 1949.

(b) Loans made under this section shall bear interest at the rate of 4 per centum per annum and shall be subject to such requirements or limitations prescribed for loans guaranteed under this title as may be applicable: *Provided*, That—

(A) the original principal amount of any such loan shall not exceed \$10,000;

(B) the guaranty entitlement of the veteran shall be charged with the same amount that would be deducted if the loan had been guaranteed to the maxima permitted under section 500 (a) of this title;

[(C) the amount of loans made under this section shall not exceed \$150,000,000, and]

(D) the authority to make loans under this section shall expire [June 30, 1951] *June 30, 1952*.

(c) In connection with any loan under this section, the Administrator is authorized to make advances in cash to pay the taxes and assessments on the real estate, to provide for the purpose of making repairs, alterations, and improvements, and to meet the incidental expenses of the transaction, and shall credit to the principal of the loan an amount equal to that which would have been payable under section 500 (c) of this title had the loan been made by a private institution.

(d) The Administrator is authorized to sell, and shall offer for sale, to any private lending institution evidencing ability to service loans, any loan made under this section at a price not less than par; that is, the unpaid balance plus accrued interest, and may guarantee any loan thus sold subject to the same conditions, terms, and limitations which would be applicable were the purchaser entitled to an automatic guaranty under section [500 (a)] 501 (b) of this title.

(e) This section shall take effect ninety days after the date of enactment of the Housing Act of 1950.

SEC. 513. (38 U. S. C. 694m). (a) For the purposes of section 512 of this title, the Secretary of the Treasury is hereby authorized and directed to make available to the Administrator such sums, not in excess of \$150,000,000 (*plus the amount of any funds which may have been deposited to the credit of miscellaneous receipts under subsections (a) and (c) hereof*), as the Administrator shall request from time to time except that no sums may be made available after [June 30, 1951] *June 30, 1952*. After the last day on which the Administrator may make loans under that section, he shall cause to be deposited with the Treasurer of the United States, to the credit of miscellaneous receipts, that part of all sums in the special deposit account referred to in subsection (c) of this section, and all moneys received thereafter, representing unexpanded advances or the repayment or recovery of the principal of loans made pursuant to section 512 of this title. Interest collected by the Administrator on loans made under section 512 in excess of the amount payable by him to the Treasurer of the United States under subsection (b) of this section, together with any miscellaneous income or credits, shall constitute a reserve for payment of losses, if any, and expenses incurred in the liquidation of said obligations. The Administrator shall have power to invest such reserves, or any unexpended part thereof, from time to time in obligations of the Government of the United States.

(b) On advances by the Secretary of the Treasury under subsection (a) of this section, less those amounts deposited in miscellaneous receipts under subsections (a) and (c) hereof the Administrator shall pay semiannually to the Treasurer of the United States interest at the rate or rates determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the advance.

(c) In order to make available the sums payable under subsection (a) of this section and to effectuate the purposes and functions authorized in section 512 of this title, the Secretary of the Treasury is hereby authorized to use, as a public debt transaction, the proceeds of the sale of any securities issued under the Second Liberty Bond Act as now in force or as hereafter amended, and the purposes for which securities may be issued under the Second Liberty Bond Act as now in force or as hereafter amended are hereby extended to include such purposes. Such sums, together with all receipts hereunder, shall be deposited with the Treas-

urer of the United States, in a special deposit account, and shall be available, respectively, for disbursement for the purposes of section 512 of this title. Except as otherwise provided in subsection (a) of this section, the Administrator shall from time to time cause to be deposited into the Treasury of the United States, to the credit of miscellaneous receipts, such of the funds in said account as in his judgment are not needed for the purposes for which they were provided, including the proceeds of the sale of any loans, and not later than [June 30, 1952] June 30, 1954, he shall cause to be so deposited all sums in said account and all moneys received thereafter in repayment of outstanding obligations, or otherwise, except so much thereof as he may determine to be necessary for purposes of liquidation. Without regard to any other provisions of this title, said Administrator shall have authority to take or cause to be taken such action as in his judgment may be necessary or appropriate for or in connection with the custody, management, protection, and realization or sale of such investments, to determine his necessary expenses and expenditures, and the manner in which the same shall be incurred, allowed and paid, to make such rules, regulations and orders as he may deem necessary or appropriate for the carrying out of the functions hereby or hereunder authorized and, except as otherwise expressly provided in this title, to employ, utilize, compensate, and delegate any of his functions hereunder to, such persons and such corporate or other agencies, including agencies of the United States, as he may designate.

